

 THE EQUALITY TRUST

# Among Equals

Spring 2015



The Equality Trust  
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## Foreword

**Duncan Exley, Director, the Equality Trust**

In last autumn's edition of *Among Equals* we talked of the significant political upheaval of the recently held Scottish Referendum. If anything the recent General Election has produced even more seismic results. An SNP triumph in Scotland, a surge in UKIP's vote share and a virtual wiping out of the Liberal Democrats were all part of the story, but the main headline was the overall result – a Conservative majority government, much to the embarrassment of pollsters.

The new political landscape will provide challenges for all parties. For us, there will be work to be done identifying the ins and outs and making sure a strong voice on inequality reduction is heard throughout the political parties, from grass-roots activists to the upper echelons.

In David Cameron's address to the nation he talked of the need to build One Nation. Although this was clearly a reference to the Union, it talks to another issue the Government must address. Over the past five years there has been growing public concern over the divide between the richest in society and the rest of us. The sense that we are increasingly perhaps two nations, one of unalloyed riches and another of day to day struggles. This is borne out in the statistics, with the richest 1,000 Britons having significantly more wealth than the poorest 40 per cent.

Eighty per cent of people now believe the gap between rich and poor is too great. 70% believe it is the government's role to reduce it. In fact [recent polling](#) found more people believe the government should focus on reducing the gap between rich and poor than believe they should first prioritise economic growth.

This concern and anger won't go away, and all political parties, not only Cameron's, will need to address how to build a genuine, united, One Nation in the years ahead. That will have to include policies that have a real impact on inequality reduction.

Inequality is not a natural phenomenon; it is not simply the inevitable result of our different talents and capabilities. It is the result of political actions as well as economic and social forces. But this doesn't mean that reducing inequality is a simple task. It will require concerted effort and imaginative ideas. To help this process, we've asked prominent voices on inequality to discuss the one measure they would see introduced to reduce inequality.

While the opinions expressed in this paper are not necessarily those of the Equality Trust, we believe they provide an invaluable contribution to the future reduction of inequality.

## Tackling high pay

Deborah Hargreaves, Director, High Pay Centre

When Britain's top bosses are taking home close to £5m a year while average wages struggle to recover from a decade-long freeze, it is clear that, as a society, our priorities are in the wrong place.

We laud the leaders of our top companies as masters of the universe and forget that it is nigh on impossible for one person to drive the performance of a large, complex company employing tens of thousands of people. Yet we direct the lion's share of rewards to those at the top, while wages elsewhere have stagnated.

At the High Pay Centre, we calculated this year that it takes only [two days](#) for a chief executive of a FTSE 100 company to accrue more in pay than an average person does in a year. This means that someone on average wages would need to work for 170 years to earn as much as a top business leader.

The explosion in pay at the top in the past 15 years is a sign of our "winner takes all" approach to the economy. For many years economists argued that it did not matter if those at the top got richer as their wealth would trickle down and enrich the rest of the population through spending on goods and services.

However, that [theory](#) has been largely discredited. In fact, spreading money more evenly through the workforce would be more efficient in economic terms as less well-off people are more likely to spend their income than the rich.

So the huge growth in pay at the top has fuelled a sharp increase in inequality in the UK and has proved economically inefficient. The OECD said last year that the UK had lost out on [9 percentage points of growth](#) in the past 20 years because of rising inequality.

It has also meant that businesses themselves operate less effectively.

Our [research](#) shows that there is very little correlation between the vast riches awarded to company directors and the performance of their companies. But don't just take my word for it. Simon Walker who heads the Institute of Directors has also decried the fact that "in some corners of corporate Britain pay for top executives has become so divorced from performance that it cannot be justified." And our [survey](#) of IOD members shows that 52% reported that scandals over executive pay were a major threat to the reputation of business.

Performance-related pay is the justification given for multi-million pound awards to executives. Martin Sorrell, chief executive of advertising group WPP, for example, defends his close to £40m pay-out last year by referring to it as performance based.

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It is only really in the past 15-20 years that performance pay has become such a large part of the executive's overall package. Long-Term Incentive Plans (which spread performance pay over three years) can now be up to 700% of salary and annual bonuses can be up to 200% of salary. This means that performance pay makes up about three-quarters of a chief executive's package.

At the same time, many in the workforce are seeing their pay frozen and their jobs becoming more insecure. In fact, top City economist, [Andrew Smithers](#), argues that bosses are incentivised to keep workforce wages down because so many of their own rewards are tied to a short-term rise in the share price.

This situation desperately needs to be addressed if we are to see anything like fairness returning to the world of work. We need to get away from the idea that top management need millions of pounds to get them to do their jobs properly while everyone else can be underpaid.

Therefore, as my approach to addressing inequality, I would advocate an overhaul of performance pay for senior staff. It doesn't work and is driving a huge rift into the heart of our workplaces. It underlines the perception that there is one rule for those at the top and another one for everyone else.

In fact, why do we have these huge awards? A growing amount of academic literature shows that executives are not motivated by being paid in this way, although it is important to get the amount right.

I would challenge the whole system that suggests a top boss will not get out of bed for less than a million pounds while many of the working poor are forced to turn to food banks to make ends meet. While we're about it, what's wrong with an official pay ratio? One of our most successful companies, John Lewis, has a ratio in its constitution that no-one can earn more than 75 times the average.

While this means that top boss, Charlie Mayfield, takes home much less than he would elsewhere, he does not appear to be unmotivated and has been at the company for many years.

One way of trying to introduce a bit of common-sense thinking into the pay debate is to broaden the membership of remuneration committees that decide on pay. This should include workers as well as others with their feet in the real world.

We would go further and advocate the election of workers to company boards – accompanied by a big increase in corporate democracy and a voice for the workforce. This works elsewhere in Europe – in fact, almost everywhere else includes some worker representation on their company boards. What are we afraid of here?

We need to look again at how our companies operate, who they are being run for and how people are paid. Only then will we get some move towards bringing down rampant inequality and avert the dystopian future that threatens.

## A progressive property tax

Danny Dorling – Professor of Human Geography, University of Oxford

Living in a highly unequal society for me means living in a socially dysfunctional society. I live in England. So many of the problems I complain about have, at their root, our local tolerance of gross inequality.

In January 2014, when I was last asked the question of ‘what one thing would I do’ I gave what for many was an unexpected answer. I suggested promoting reducing speed limits on residential roads, by shops and schools to 20mph. You may not think of fast cars as being a product of economic inequality, but in more equitable countries people are far more likely to live in cities where the cars are restricted to 30kmph speeds (about 18.5mph). The effect of slowing down cars is not just to reduce accidents and deaths, especially for children and the elderly. When cars are slowed down we all become a little less individualistic and [intolerant](#).

During the last twelve months Transport for London has announced 20mph trials on certain red routes in London. Greater Manchester has announced that some 1,800 roads will be limited to 20mph. The cyclist Chris Boardman has backed the 20's Plenty campaign and NICE, the National Institute for Health and Clinical Excellence, released a report titled “Preventing unintentional injuries among under-15s” which recommends, on preventative clinical grounds, 20mph limits where children and young people are [likely to be](#)”.

It is easy to think that progress is hard to achieve if you do not stop, take stock, and realize just how much is being achieved all the time. More so under the most difficult of circumstances, when the greatest of cuts are being made and in an atmosphere where it is usual to say that the devil can take the hindmost, even when the hindmost is a child who crosses the road too slowly.

We cannot just do ‘one thing’. We have to do many things, but we can only do one thing at a time, and we need to keep on doing this otherwise the pressure of those who lack empathy and understanding will drive us backwards.

So, what one thing would I suggest for 2015? I think we have to ask “why are housing prices so high in London and so unaffordable in much of the rest of the country?” One answer is that London is an attractive place for the super-rich and mildly super-rich to park their money, to promulgate their views and to congregate. They do this for one reason above all others. In London their money is safe; safe from being taxed.

To demonstrate this, the table below shows the council tax rates that a household resident in the borough of Westminster can expect to pay this year depending on how highly their property was valued in the early 1990s. The most any resident can expect to pay in annual property tax to contribute to local services in that borough is £1,345.48. London is now home to over 70 billionaires and a huge number of [multi-millionaires](#). Each of these individuals will be paying a wealth tax that, at most, equates to less than 0.01% of their wealth a year. It is not their fault. It is our fault. They

only get one vote each, not even that if they are not UK citizens. They cannot directly elect political representatives to give them such preferential treatment. We allow ourselves to be fooled by them and the influence their money can buy.

### 2015 Westminster borough & GLA combined council tax

Band	Westminster City Council	Greater London Authority	<a href="#">Total</a>
A	251.83	196.67	448.50
B	293.80	229.44	523.24
C	335.77	262.22	597.99
D	377.74	295.00	672.74
E	461.68	360.56	822.24
F	545.62	426.11	971.73
G	629.57	491.67	1,121.24
H	755.48	590.00	1,345.48

So, what should be done? Several of our main political parties have suggested a 'mansion' tax. In the run up to the 2015 general election Labour's proposal attracted most attention, but it only applies to homes worth £2 million or more and will only be levied at a rate of 0.1% of the property value for a home worth £3 million, or an extra £3,000 a year. Above that level the rate will rise slightly, but anyone who can claim that their income is low will be able to avoid paying the tax until they sell the property.

It is because we live in such an unequal country that the mildest of suggestions for a wealth tax can prove so controversial and be watered down so much before even being presented as a manifesto commitment. A far more progressive wealth tax is possible and would be easier to introduce if it simply used the existing council tax system. Everyone is able to pay it because everyone with property can take out a loan based on the value of that property to pay their tax. The loan is secured on the value of the property (it's called a mortgage). If the property is not worth enough to cover the loan then the homeowner can contest the valuation of their property. However, few people are willing to ask for their property to be declared as being of low value.

My suggestion is that additional council tax bands are added above band H and their values double up to band R as follows. The existing bands up to H are retained so only people currently in band H properties are affected.

## A proposed revision to property taxation – levied at 2015 property values

Valuation Band	Flat Tax	Values
A	£0	Up to £40,000
B	£168	£40,001 to £52,000
C	£219	£52,001 to £68,000
D	£286	£68,001 to £88,000
E	£370	£88,001 to £120,000
F	£505	£120,001 to £160,000
G	£673	£160,001 to £320,000
H	£1,345	£320,001 to £640,000
I	£2,691	£640,001 to £1,280,000
J	£5,382	£1,280,001 to £2,560,000
K	£10,764	£2,560,001 to £5,120,000
L	£21,528	£5,120,001 to £10,240,000
M	£43,055	£10,240,001 to £20,480,000
N	£86,111	£20,480,001 to £40,960,000
O	£172,221	£40,960,001 to £81,920,000
P	£344,443	£81,920,001 to £163,840,000
Q	£688,886	£163,840,000 to £327,680,000
R	£1,377,772	£327,680,001 and above

The council tax rate to be levied annually then doubles with each band above H in direct proportion with property values. This is not even a progressive wealth tax, it is a flat wealth tax; but someone in a property worth £3 million would be paying £10,764 in property taxes a year, not just £1,345. Of course the money would simply come from their wealth; wealth of such a huge extent that for the vast majority of us it is hard to imagine being able to actually spend all that money in other ways. And, if they feel hard done by, they are safe in the knowledge that their neighbour in a home valued at £30 million would be paying some £86,111 a year in property tax (0.29%), not just £1,345.

No one would be forced out of his or her home by this proposal. Housing values might well fall, but then they are too high and if they fall the property taxes should fall. London is currently the most expensive large city on the planet; the most expensive large city there has ever been in all of human history. That alone is reason why a revaluation of the stock is already long overdue and without it the current system is unfair even in its own terms. And council tax could easily be abolished on lower band properties, removing at a stroke so many of the unnecessary evictions of the poor, the many who are actually unable to pay the current unfair tax – whose voices are hardly ever heard in contrast to the rich who complain so loudly that they cannot afford to be fairly taxed.

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Property values vary so much across the country that this system would result in some councils being excessively rich. There is no reason not to have a single London-wide set of rates, and direct government grants to local authorities, based on need, would need to reflect their council tax income.

Eventually council tax will have to be made more smoothly proportionate within bands. It is hard to defend a flat tax so it should become more progressive. We also need to move towards a Land Value Tax of the kind argued for by Winston Churchill. However, on the road to a more equitable country you can only do one thing at a time and take one step at a time. So this is the step I would suggest for 2015.

Currently reform of council taxation appears impossible. Only the Welsh have added a council tax band and then only one. All of the UK needs a fairer system of taxing wealth and most of our wealth is held in property. But just as a few years ago it seemed Utopic to wish for our roads to be safer and cars not to be allowed to travel at speeds that would kill a small child (or a frail adult) on impact, so too what seems Utopic as regards wealth taxation today could appear as common sense tomorrow.

## Addressing Power Imbalances in the Workplace

Frances O'Grady, General Secretary of the British Trades Union Congress (TUC)

As trade unionists, fighting inequality is in our DNA. Governments come and go, and have a huge effect on whether we face a rising tide of worsening inequality or have them as willing partners in the fight. But for me it always comes down to tackling the imbalance of power in our society, starting with the workplace.

Despite the lessons of the financial crash, over the past five years we have seen that balance of power tip yet further away from workers in favour of employers and big capital. From the new government's early pronouncements, we are concerned that trend may continue.

Ordinary people have seen their pay held down, and have paid all over again through cuts to the services and benefits they rely on. David Cameron has claimed that child poverty fell under the coalition. But a more accurate assessment by the Institute for Fiscal Studies finds that 700,000 more children are likely to be in relative poverty by 2020/21 compared to 2011/12 – the majority of them in families where at least one person is in work.

So it's disappointing to say the least that the government has made attacking union rights an early priority, at the same time as proclaiming that they are the party of the workers. Not setting out meaningful measures to tackle the UK's productivity challenge, invest in decent jobs or further education, but imposing thresholds on union strike ballots that many MPs would struggle to beat.

So we have a tough five years ahead, but I want to stay focused on the practical changes that could make a difference in redressing that imbalance of power and tackling inequality. I believe that we need to build new institutional mechanisms to improve pay and give workers a voice in the boardroom, and ultimately to strengthen unions and collective bargaining.

At the lower end of the pay spectrum, the national minimum wage (NMW) and the Low Pay Commission have created an essential floor. But the NMW is not a living wage, and it has become the 'going rate' in some sectors. Low paid people have been hard hit by welfare and service cuts. Ministers talk about workless households, but three-quarters of all cuts to working-age welfare will affect working families, with almost half hitting families with children.

To get to the root of low pay, it's time for new institutions with the power to set higher floors in sectors that can afford it. Social care – where zero hours contracts and rock-bottom pay have exploited workers and undermined service quality – should be one of the first areas for this approach.

At the top end of the spectrum, executive pay has soared while ordinary workers faced the longest living standards squeeze since the Victorian era. The remuneration committees who set directors' packages are drawn from an out-of-touch, overpaid elite. The TUC report *A Culture of Excess* found

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that FTSE 100 remuneration committee members were paid on average £441,383 – sixteen times more than the average worker. And they come from a small pool, with the majority holding at least one board position at another company.

Worker representatives on remuneration committees would bring an essential real-world perspective to the issue of executive pay and would help companies take the pay and conditions of other company workers into account in their decisions. Taking the next logical step, it might sound radical in our lopsided corporate culture, but the principle of worker representation on boards, not just remuneration committees, is mainstream in much of the EU and demonstrably popular with voters across the political spectrum in this country. Strengthening requirements for information and consultation would provide routes for workers' voice and involvement in these roles and throughout the company and could be used by unions as organising opportunities to promote collective bargaining.

Addressing power imbalances in the workplace comes down to union strength and influence, including collective bargaining. Where unions are strong, equality improves and individuals, their families and the economy as a whole benefit from reduced inequality. Unions deliver better pay, fairer treatment and safer workplaces. Unionised workplaces have a better record on equal pay, work/life balance and discrimination too. And unions have a proud record of lobbying for laws to help vulnerable workers who don't have a union to help them.

The share of the national income that goes to wages has been falling for three decades, in parallel with the drop in collective bargaining coverage, which is now at around 30 per cent. The International Monetary Fund and the OECD have both recognised that declining collective bargaining is linked to rising inequality. The measures above provide some starting points for rebuilding collective bargaining for future generations.

We know now that for the next five years we'll need to tackle inequality head on in a challenging environment. We'll need steps like these, underpinned by strong union organisation and broad alliances with those who share our aims, to succeed.



## How You Can Get Involved

We are delighted to announce that since our last edition of Among Equals the Equality Trust has been granted charitable status. This will not change the nature or focus of our work but instead strengthens our ability to work to improve life in the UK through the reduction of our extreme and excessive inequality. We rely on donations to keep our campaign going. If you found this bulletin interesting and informative, please consider supporting our work [by signing up as a regular supporter or by making a one off contribution](#). You can also support our work by forwarding this bulletin to people you know who might be interested in our work. You can also:

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